

Congress of the United States
House of Representatives
Washington, DC 20515

October 1, 2020

The Honorable Steven T. Mnuchin
Secretary
Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, D.C. 20220

Secretary Mnuchin:

As we continue to monitor the development of the Insurance Capital Standard (ICS) by the International Association of Insurance Supervisors (IAIS), we are concerned that despite the economic impact of the COVID-19 pandemic, the IAIS has indicated its intention to stick to the five-year timeframe to fully implement the ICS. We write to you regarding concerns with both the timeframe for the monitoring period as well as the execution of an agreed to economic impact study of the proposed ICS and urge Treasury – and Team USA – to make these priority issues in its continued discussions with the IAIS.

We are grateful for the U.S. Department of the Treasury and the Federal Insurance Office on their leadership and commitment to work collaboratively with the Federal Reserve Board of Governors and state insurance regulators on advancing the goal of the U.S. Aggregation Method (AM) being recognized as outcome-equivalent to the ICS. In particular, we are pleased that coming out of last November’s IAIS meeting in Abu Dhabi, Team USA was able to reach agreement on a number of important issues. The agreement acknowledges that the goal is for the ICS to recognize the AM as outcome equivalent; reiterates the IAIS’ commitment to “helping to collect data ... that will aid in the development of the AM”^[1]; and allows for refinements to the ICS during the monitoring period to correct “major flaws or unintended consequences”^[2]. The agreement also “rejects any notion that [U.S. companies] would be required by the IAIS to participate with the reference ICS during the monitoring period”^[3] and requires an economic impact assessment that will aid in the development of the ICS. This impact assessment will aid in the recognition of the AM as well.

While we are cautiously optimistic about these developments, we believe this workplan should be adjusted to account for the disruption related to the COVID-19 pandemic, which has effectively resulted in a lost year of the ICS monitoring period. Due to COVID-19 necessitated delays, ICS will, understandably, not be the focus of discussion during most 2020 supervisory colleges for global groups. In addition, travel restrictions will create operational challenges for supervisors to review and synthesize submitted data. For these reasons, we believe that the ICS monitoring period should be extended by adding an additional year to realize the originally intended value of the monitoring period. Further, we continue to believe that the plan to conclude the economic

^[1] International Association of Insurance Supervisors Explanatory note on the Insurance Capital Standard (ICS) and Comparability Assessment, page 3. View the document [here](#).

^[2] Id. At page 2.

^[3] National Association of Insurance Commissioners’ Interpretive Guidance on ICS Comparability Assessment Framework, page 3. View the document [here](#).

^[4] Under the current IAIS work plan, the economic impact study is not expected to be completed until the second quarter of 2024, only six months before the proposed adoption of the ICS as a prescribed capital requirement (PCR) and only one quarter prior to a decision on whether the AM provides comparable outcomes to the ICS. Please see the IAIS’ proposed ICS work plan and timeline 2020 – 2024 [here](#). Although we understand that a certain amount of data must first be collected in order for the study to be of value, this must be balanced with the need for its findings to inform changes to the ICS.

impact assessment the same year the ICS is finalized is unacceptable. The economic impact assessment is a critical part of the monitoring period and must be positioned at an earlier stage to ensure there is adequate time to review the results and take meaningful action to address any material flaws and unintended consequences that are identified.

In addition, assessment work should not be limited to the ICS but should also include the AM once a framework for comparability between AM and ICS is agreed upon. Although the IAIS plans to analyze the effect of pandemic-related market stresses on the ICS balance sheet, given pandemic-related market conditions there also should be an assessment of the effectiveness and usefulness of the ICS in comparison to the AM. We believe that the extension of an economic impact analysis to the AM would help to demonstrate that its design mitigates some of the potential detrimental impacts of the ICS on financial stability and the provision of long-duration products like life insurance or annuities, thereby aiding in recognition of the AM.

Finally, the economic impact assessment should be conducted with a degree of independence. The parties who developed the ICS should not be the parties who assess the ICS. Independence would make the findings more persuasive and impartial.

We recognize that the U.S. Department of Treasury remains focused on economic recovery during the COVID-19 pandemic. While Treasury continues this important work, we urge Treasury's support and advocacy for these positions in the coming months in coordination with other Team USA members. Although significant work remains to be done during the ICS monitoring period, we are confident that Treasury and Team USA will continue to protect U.S. interests and maintain the necessary pressure before the IAIS to achieve international recognition of the AM.

Sincerely,



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Member of Congress



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